

PATENTESQUE LAW GROUP, LLP

2018 IP YEAR IN REVIEW: RAND LICENSING DEVELOPMENTS

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**Joseph Yang, Esq.
PatentEsque Law Group, LLP
Menlo Park, California**

RECENT U.S. LEGAL DEVELOPMENTS AFFECTING SEP/RAND LICENSING

- I. **Licensing / Litigation:** SEPs / Unenforceability
- II. **Licensing / Litigation:** SEPs / Nondiscrimination
- III. **Licensing / Litigation:** SEPs / Reasonable Royalty
- IV. **Licensing / Litigation:** SEPs / Worldwide Conflicts

I. LICENSING / LITIGATION: SEPs / UNENFORCEABILITY

A. Facts:

1. Nokia submitted proposal to ETSI **without disclosing** patent app
2. Nokia **eventually disclosed** after standard issued
3. CoreWireless got SEP from Nokia, asserted against Apple
4. Apple argued patent **unenforceable** due to implied waiver

B. Issue: Was there an **implied waiver (unenforceability)**?

C. Holding: Equitable doctrine, requiring that the patentee either

1. Obtained an **unfair benefit** (normal materiality concept), or
2. Engaged in **egregious conduct** (exception to materiality)

Core Wireless v. Apple (Fed. Cir. Aug. 2018)

D. Practice Tips:

1. Patent buyers must diligence activity, not just title, encumbrances, etc.
2. Also conduct **diligence** (and get R&W) on **activities of past owners**

II. LICENSING / LITIGATION: SEPs/ NONDISCRIMINATION

A. Background:

1. TIA and ATIS IP policies:
 - a. Must license “applicants” or “all applicants”
 - b. License terms must be RAND

B. Facts:

1. Qualcomm had many SEPs covering chips and handsets
2. Qualcomm sold chips & refused to license competing chip makers
 - a. Only licensed handset makers

C. Issue: Must Qualcomm to license chip makers?

D. Holding: Yes, must license all applicants

1. Citing express language & IP guidelines
2. Also citing the non-discrimination obligation in the IP policies

FTC v. Qualcomm (N.D.Cal. Nov. 2018)

E. Comment: IP policies say RAND applies to license terms (not applicants)

III. LICENSING / LITIGATION: SEPs/ REASONABLE ROYALTY

A. Facts:

1. Ericsson trying to license SEPs to TCL
2. Ericsson offered **smaller global companies** (like TCL) **higher royalties** than for “global kings” (e.g., Apple, Samsung, Huawei)
3. Parties agreed to **binding court adjudication** of worldwide RAND license

B. Issues:

1. ND: Measure against **comparable companies** or **global kings**?
2. R: **Top down** (cap + apportion) or **bottom up** (comparable licenses)?
3. Were **Ericsson's offers** RAND?

C. Holdings:

1. ND: Global kings
2. R: **Top down**
3. Comparable Licenses: Used only to test the “**non-discriminatory**” requirement & to **cross-check** the **RR** determination
4. Result: Ericsson's offers were **unreasonable** and **discriminatory**

5. Process:

- a. Calculate an **aggregate RAND royalty rate** (for the **U.S.**) across all SEPs in the standard, then apportion among SEP holders
 - i. **Apportionment**, treat all SEPs equally, so portfolio size controls
- b. For **non-U.S.** royalties, define 2 regions (**Europe & Rest of World**), and **adjust U.S. rate downward** to reflect different portfolio strengths
 - i. Regional strength ratios: Europe (70%-88%), ROW (55%-75%)
- c. Ericsson SEP royalty rate = (**Aggregate** SEP royalty rate) x (# of **unexpired Ericsson SEPs**) / (**Total #** of all **SEPs** in the standard) x (Regional strength ratio)
- d. Royalty rate in country of manufacture (i.e., **China**) sets a **global floor**
- e. Court **declined to use floors and caps**, even though some Ericsson comparable agreements had them
 - i. **Floors = discriminatory**: higher effective rate for cheaper phones

TCL v. Ericsson (C.D.Cal. Dec. 2017) (See reissued opinion Sep. 2018)

E. Comments:

1. Largely **followed UK** high court decision (*Unwired Planet v. Huawei*)
 - a. **Except Unwired** used **comparables** for RR, then TD as cross-check
 - b. A small change by U.S. court completely **flipped the outcome**
2. Very **pro-licensee**
 - a. Rationales of avoiding **royalty stacking**, preventing **excessive royalties**, protecting **smaller companies**, etc.
 - b. Nothing about protecting licensors' rights to monetize
 - c. Calculations **slanted in favor of implementer** in many ways
 - i. Expired patents in denominator, but not numerator
 - ii. Throwing out high royalty comparables
3. Contract law -- not patent law -- decision
4. RAND law is still developing, with differing approaches & outcomes
5. On appeal to Federal Circuit

IV. LICENSING / LITIGATION: SEPs / WORLDWIDE CONFLICTS

A. Facts:

1. After **6 years** of unsuccessful SEP / RAND cross-license negotiations, **Huawei sued Samsung** (simultaneously) in **China and U.S.**
2. **China** (Shenzen) Court:
 - a. Implementer has obligations: **Samsung didn't behave reasonably** because of:
 - i. Insistence on **bundling** (SEPs and non-SEPs)
 - ii. **Delay** (including 1 year of **silence**)
 - iii. **Non-responsiveness** (6 offers by Huawei; 1 by Samsung)
 - iv. **Refusal** of arbitration offer
 - v. **Stalling & delaying** during court-ordered **mediation**
 - b. Court used **top down** approach to find Huawei made RAND offer
 - c. Both SEP portfolios equal but **Samsung's outbound offer was 3x higher than Huawei's**
 - d. **No exhaustion** defense (after reviewing Huawei's license to **Qualcomm** chip used by Samsung)

- e. **Enjoined Samsung's Chinese manufacturing**
- 3. **U.S. Dist. Ct.:** Samsung sought to **enjoin Chinese injunction**
- C. Issue: Should **U.S.** court **enjoin enforcement of the Chinese injunction?**
- D. Holding: Yes
 - 1. **Gallo** (9th Cir. 2006) controls anti-suit injunction re foreign court:
 - a. **Same parties & issues?** Is 1st (U.S.) action **dispositive** of 2nd? **YES**
 - b. An U.S. court may **enjoin a foreign injunction** that would:
 - i. **Frustrate a policy of the U.S. court?**
 - A. YES, U.S. court should be able to **adjudicate the issues**, without **holdup** effect on implementer
 - ii. Be **vexatious or oppressive**
 - iii. Threaten the U.S. court's **jurisdiction**
 - iv. Prejudice other **equitable** considerations
 - c. Tolerable impact on comity?
 - 2. Traditional **4-factor test** is **subservient** to the *Gallo* framework
- E. Comment: On appeal to Federal Circuit

SPEAKER BIOGRAPHY -- JOSEPH YANG

Joe Yang is a partner at *PatentEsque Law Group, LLP*, and a Lecturer at *Stanford Law School*. He is also an expert witness for high stakes IP & licensing disputes. Previously, he was VP & General Counsel of *Cryptography Research, Inc.*, whose licensees make 10+ billion devices/year under the company's patent and technology licenses. Joe specializes in patent deals (e.g., licensing, monetization and standard bodies), tech transactions (e.g., licensing, JVs, IoT, big data & SaaS) and IP strategy. He has led hundreds of deals worth billions of dollars in (and across) the computer, electronics, semiconductor, consumer, entertainment, energy & health fields. He has been an arbitrator, overseen patent litigation & developed corporate patent portfolios.

Joe is profiled in Marquis' *Who's Who in American Law* & *Who's Who in America*; and in Intellectual Asset Management's guides to the *World's Leading IP Strategists*, *World's Leading Patent Professionals* & *World's Leading Patent & Technology Licensing Lawyers*. IAM named Joe as 1 of only 10 "highly recommended" IP transactional attorneys in California -- the only one from a boutique (non-AmLaw 100) law firm: "*Joseph Yang is a major-league deal maker and licensing authority*" ... "*a transactional mastermind*" ... "*a formidable negotiator.*" "*He ... is a creative problem solver who can clearly articulate legal risks and provide effective advice to guide business decision making.*"

Joe co-chairs the nationwide "Advanced Licensing," "Advanced Patent Licensing" & "Understanding the IP License" courses -- attended by thousands of lawyers annually -- at the *Practising Law Institute*. He has written for journals & books, and been cited by courts & treatises. Joe teaches "*Patent & Technology Licensing*" at *Stanford Law School* & has taught "Patent Law & Policy" at *U.C. Berkeley School of Law*.

Previously, Joe co-founded & later led the IP Strategy & Transactions practice of *Skadden, Arps* (Palo Alto), the world's then-largest law firm. Originally, Joe was a research engineer in aerospace & energy. Joe has a J.D. from Stanford and a Ph.D. (engineering) from the *California Institute of Technology*, where he has served on the boards of the Caltech Alumni Association, and the Caltech Associates.